



Jane Dee Hull, Governor

Mark W Killian, Director

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Arizona Department of Revenue Mission Statement

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

B.R./I.T.S. Project on Hold Pending Outcome of Budget Shortfall

On October 3rd the Department advised its BR/ITS vendors that it was putting the BR/ITS project on hold pending information as to how the Legislature would handle the growing budget shortfall. Earlier in the week, Governor Hull had issued a press release indicating that she had asked all general fund agencies to develop plans for a 4% budget cut to address the earlier \$250 million budget shortfall prediction. She noted that the latest estimates were as much as a \$1.6 billion dollar shortfall for the two-year budget period. She called for a Special Session of the Legislature to convene on November 13 to address this issue. The Department will not know how deep it will have to cut its operations until the Legislature completes the special session. If DOR has to make the severe cuts that may be needed, it will not be able to provide the staff needed to support the reengineering project. So, DOR and the State Purchasing Office decided to put the project on hold until the impact of the Special Session is known. Then, depending on how things turn out, the Department can reestablish and finish the RFP or cancel the

project. The Department is very disappointed that it had to take this action at this time. After an investment of almost three years of Department time in developing the project and months of our vendors' time in the proposal stage, putting the project on hold was a difficult decision. It had to be made however, in fairness to our vendors. They needed to know that the project was in jeopardy so they could make responsible business decisions about continuing in these uncertain times. The Department did leave the door open, if any vendor chooses, for the vendors to continue on and finish their proposal development now rather than wait for the Legislative decision on the budget. As of this date, two of the vendors are still in house and continuing interviews while they evaluate whether to wait or proceed. Scheduled meetings have not been cancelled, so at least for the short term it looks like they will continue to work on their proposals.

*** REMINDER ***

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your November 2001 TPT return no later than December 26, 2001 or deliver to DOR no later than December 28, 2001.

August Summary of General Fund Revenues

	August 2001	Fiscal Year Total
Individual Income Tax		
Net Collections	\$161,316,791	\$307,076,926
Percent Change *	4.4%	2.4%
Corporate Income Tax		
Net Collections	\$12,169,260	\$24,491,069
Percent Change *	223.8%	(10.9%)
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$237,406,224	\$496,729,716
Percent Change *	1.6%	0.4%
Total Big Three Tax Types		
Net Collections	\$410,892,224	\$496,729,716
Percent Change *	1.6%	5.7%

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax Individual Income Tax Receipts

	August 2001	August 2000	%
Gross Collections	\$14,341,239	\$15,854,444	(9.5)
Withholding	201,423,533	192,705,500	4.5
Refunds	(19,291,600)	(21,018,789)	(8.2)
Urban Rev Sharing	(35,156,381)	(33,037,720)	6.4
Net Collections	\$161,316,791	\$154,503,435	4.4
Fiscal Year Total	(01/02)	(00/01)	%
Gross Collections	\$24,075,498	\$25,424,051	(5.3)
Withholding	390,406,379	376,788,515	3.6
Refunds	(37,092,189)	(36,328,785)	2.1
Urban Rev Sharing	(70,312,762)	(66,075,440)	6.4
Net Collections	\$307,076,926	\$299,808,341	2.4

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. In August \$2,804,182 in alternative fuel vehicle credits were processed. After offsetting \$529,566 in tax liability, refunds for this credit totaled \$2,274,616. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit. Additional refunds were paid out of corporate income tax.

TAX CALENDAR

DECEMBER 2001

Due Date		For Period Ending
17	Income Tax Returns: Form 120: Corporation Form 140: Individual Form 141: Fiduciary Form 165: Partnership	8/31/01
17	Form 120: Corporation with Automatic Extension	2/28/01
17	Form 120S: S Corporation	9/30/01
17	Exempt Organizations Form 99: Annual Information Return Form 99T: Exempt Organization	7/31/01
17	Form 120ES: Estimated Tax Payment, Corporation First Installment Second Installment Third Installment Fourth Installment	8/31/02 6/30/02 3/31/02 12/31/01
20	Form TPT-1: Transaction Privilege Tax: November Monthly Filers	11/30/01
20	Bingo: Financial Reports	11/30/01
20	Luxury Tax: Various Forms	11/30/01
25	State Holiday - Christmas	All State Offices Closed
26	EFT Form TPT-1 and Payment: Transaction Privilege Tax: November Monthly Filers	11/30/01
	<i>Withholding Tax Payment Information:</i>	

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Internal Revenue Service has announced that interest rates for the calendar quarter beginning October 1, 2001 will remain the same for both overpayments and underpayments. Therefore, our interest rate will remain at 7% for underpayments and will also remain at 7% for overpayments.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from: **Tony Manzo** at (602) 542-3062.

Alternative Fuel Vehicle Report for September, 2001

October 12, 2001

Pursuant to A.R.S. §§43-1086, 43-1086.01, 43-1086.02, 43-1174, 4-1174.01 and 43-1174.02, credits are allowed for the following:

- The purchase or lease of an alternative fuel vehicle;
- The purchase and installation of a vehicle refueling apparatus;
- The construction or operation of an alternative fuel delivery system.

The taxpayer shall claim the credit with the filing of the Arizona income tax return. In accordance with S.B. 1004, Section 37(A), the Director of the Department of Revenue shall report the following amounts related to:

- The aggregate dollar amount of alternative fuel related credits claimed under sections 43-1086, 43-1086.01, 43-1086.02, 43-1174, 43-1174.01 and 43-1174.02, Arizona Revised Statutes, on income tax returns during the preceding calendar month.

For the period of September 1 through September 30, 2001, the department received 136 individual income tax returns with claims for alternative fuel related credits totaling \$2.4 million. A total of 4,867 individual income tax returns with claims have been received from January through September, totaling \$90.7 million in credit. The department also received 23 corporate income tax returns in September with claims for alternative fuel related credits totaling \$4.4 million. A total of 130 corporate income tax returns with claims have been received from January through September, totaling \$14.8 million in credit.

- The dollar amount of verified credits claimed in the preceding calendar month not used to offset income taxes under title 43, Arizona Revised Statutes.

For the period September 1 through September 30, 2001, the department issued 91 individual income tax refunds for alternative fuel related credits. There was \$2,355,677 in AFV credits on these 91 returns. After offsetting \$605,594 in liability, \$1,750,083 was refunded. The department issued 12 corporate refunds for alternative fuel related credits. There was \$508,683 in AFV credit on these 12 returns. After offsetting \$24,542 in liability, \$484,141 was refunded.

Combining the corporate and individual income tax return amounts results in \$2,234,224 that should be transferred from the Budget Stabilization Fund into the General Fund for September 2001. In last fiscal year, \$66,360,441 was paid from the Budget Stabilization Fund into the General Fund. In this fiscal year, \$9,146,350 is the total to be paid from the Budget Stabilization Fund, putting the overall total coming from the Budget Stabilization Fund for alternative fuel vehicle credits at \$75,506,791.

- The cumulative dollar amount of the credits claimed in all taxable years, beginning from and after December 31, 2000.

The cumulative dollar amount of credits (individual and corporate) claimed is \$105.4 million.

- Any estimated amounts remaining to be claimed as credits in each fiscal year.

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Arizona Transaction Privilege Tax Procedure

TPP 01-1

Procedure for Requesting Refunds Under
Laws 2001, Chapter 314
45th Legislature, First Regular Session

Issue:

This procedure provides guidance to taxpayers requesting a refund of transaction privilege and/or use taxes paid that is available under the retroactive provisions enacted under House Bill 2391 during the 2001 legislative session which:

1. Amends the retail classification to:
 - ◆ Provide that the transaction privilege tax does not apply to sales of tangible personal property by a nonprofit organization that is exempt from taxation under section 501(c)(6) of the Internal Revenue Code if the organization produces, organizes or promotes cultural or civic related festivals or events and no part of the organization's net earnings inures to the benefit of any private shareholder or individual. [A.R.S. § 42-5061(A)(54)] Retroactive to tax periods beginning from and after December 31, 1982, and requiring refund requests to be filed on or before December 31, 2001.
2. Amends the amusement classification to:
 - ◆ Provide that the amusement classification does not include activities and events of, or fees received by, a nonprofit organization that is exempt from taxation under section 501(c)(6) of the Internal Revenue Code if the organization produces, organizes or promotes cultural or civic related festivals or events and no part of the organization's net earnings inures to the benefit of any private shareholder or individual. [A.R.S. § 42-5073(A)(9)]
 - ◆ Retroactive to tax periods beginning from and after December 31, 1982, and requiring refund requests to be filed on or before December 31, 2001.

3. Amends the use tax exemption statute to:
 - ◆ Provide that the use tax does not apply to sales of tangible personal property to a nonprofit organization that is exempt from taxation under section 501(c)(6) of the Internal Revenue Code if the organization produces, organizes or promotes cultural or civic related festivals or events and no part of the organization's net earnings inures to the benefit of any private shareholder or individual. [A.R.S. § 42-5159(A)(48)] Retroactive to tax periods beginning from and after December 31, 1982, and requiring refund requests to be filed on or before December 31, 2001.

Applicable Law:

General

Arizona Revised Statutes (A.R.S.) § 42-1118 provides for the issuance of a credit or refund when any amount of tax, penalty or interest has been paid in excess of the amount actually due. The statute enumerates the different forms in which a refund may be issued. In addition, the statute specifically delineates what information is to be included in a refund request.

A.R.S. § 42-1104(A) provides a four-year limitation period for the department to assess additional tax due.

A.R.S. § 42-1106 provides that a claim for credit or refund may be submitted to the department subject to the four-year limitation period of A.R.S. § 42-1104.

A.R.S. § 42-1108(A) provides that if the department is not satisfied with payment of any tax required to be paid, the department may examine any return within the four-year limitation period established in A.R.S. § 42-1104.

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A.R.S. § 42-1119 provides that if the department disallows any claim for refund it shall notify the taxpayer of the denial. The department's action on the claim is final unless the taxpayer appeals to the department in writing within the time and in the manner prescribed by statute.

Specific

Laws 2001, 1st Reg. Session, Chapter 314, Section 4 provides for the retroactive application of A.R.S. §§ 42-5061(A)(54), 42-5073(A)(9) and 42-5159(A)(48). The session law also provides that any refund claim based on the retroactive application of these sections shall be submitted to the Department of Revenue on or before December 31, 2001. A failure to file a claim on or before December 31, 2001 constitutes a waiver of the claim for refund. The burden is on the taxpayer to establish by competent evidence the amount of tax paid for all taxable periods and the amount, if any, attributable to transactions that qualify for deduction under these amendments. The Department of Revenue shall:

1. Review all timely filed claims.
2. Determine, on audit if necessary, the correct amount of each claim.
3. Notify the taxpayer of its determination. The notice is final unless a taxpayer appeals in the manner provided in A.R.S. § 42-1119.

The Department of Revenue shall not make a refund until after a final determination has been made as to the amount of all refund claims filed under this section. If a taxpayer appeals the department's determination, the department, in compliance with confidentiality statutes, may notify other taxpayers who have file claims as to the nature of any delay and, if possible, to estimate the probable extent of the delay. The aggregate amount of the tax refund under this section shall not exceed \$10,000. If the aggregate amount of claims under this section

that are ultimately determined to be correct exceeds \$10,000, then each claim shall be proportionately reduced so that the total refund amount equals \$10,000.

Interest shall not be computed or allowed on any refundable amount if paid before July 1, 2002, but if the amount cannot be determined or paid until after June 30, 2002, interest accrues thereafter.

Procedure:

During the 2001 legislative session, several new retroactive exemption provisions were enacted amending the transaction privilege and use tax statutes. Claims for refunds available under H.B. 2391 must be filed with the department on or before December 31, 2001.

In general, a claim for refund must be in writing and must identify the claimant by name, address and tax identification number. In addition, each claim shall include the specific tax periods involved, the amount of refund requested for each period, and the specific grounds on which the claim is founded. An Amended Transaction Privilege Tax Return (Form TPT-1X) may be used when filing for a refund. The taxpayer or the taxpayer's authorized representative shall sign the amended return. Claims for refund are subject to the provisions of A.R.S. § 42-1104, Statutes of limitation; exceptions. Therefore, claims for refund may only include tax periods covered on returns filed or required to be filed, whichever period expires later, within four years prior to the claim for refund, or within any extended period authorized by A.R.S. § 42-1104.

If filing for multiple periods, the taxpayer should submit the written request to the transaction privilege and use tax refund section *before* filing the amended returns. The Refund Section will review the request and contact the taxpayer with further instructions to accommodate amended return filings for multiple periods.

Transaction Privilege Tax

The transaction privilege tax is a tax imposed on the privilege of conducting business in the State

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of Arizona. The tax is levied on the vendor, not the purchaser. The vendor may pass the burden of the tax on to the purchaser; however, the vendor is ultimately liable to Arizona for the tax. Therefore, only the vendor may request a refund of tax.

Use Tax

In the case of the use tax, the taxpayer filing a refund request is either the purchaser or the out-of-state vendor who is registered with the department to collect the tax. Unlike the transaction privilege tax, the use tax applies to the storage, use or consumption of tangible personal property in Arizona and purchased from a retailer that has not been subjected to transaction privilege tax or to an excise tax in another state that equals or exceeds the use tax. A purchaser who paid use tax directly to the department on a now exempt transaction may apply directly to the department for a refund of those taxes. If the tax has been paid

to an out-of-state vendor registered with the department to collect Arizona use tax, it is the out-of-state vendor who requests the refund. Under A.R.S. § 42-1108(A), if the department is not satisfied with a return, the department may examine the return, including any books, papers, records or memoranda relating to the return. This includes an Amended Transaction Privilege Tax Return, Form TPT-1X. All information relating to a refund is subject to verification by the department.

Send requests for refunds under the retroactive provisions enacted by House Bill 2391 to the address below.

Refund Section
Transaction Privilege & Use Tax Audit
Arizona Department of Revenue
P.O. Box 29062
Phoenix, Arizona 85038-9062

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Through September, 4,997 (corporate and individual) claims have been received. Those claims reviewed include 4,696 claims for 5,119 vehicles, 11 claims for refueling stations and 428 claims for refueling apparatus. (Claims that have not yet been reviewed are not included in this count.) It is anticipated that more than 5,000 vehicle

credit claims will be filed. In addition, it is anticipated there will be claims for the other alternative fuel credits. However, at this time, the department has no independent means of estimating the amount yet to be claimed.

If you should have any questions, please contact Anthony Forschino at (602) 542-4672.

Change in Pinetop Lakeside Town Tax Code Effective January 1, 2002

On October 4, 2001 the Mayor and Town Council of Pinetop-Lakeside passed ordinance 01-195 adding Code Section 8A-447 and Regulation 8A-447.1 to its Town Tax Code. Ordinance 01-195 establishes an additional tax on Transient Lodging of 3%. The

additional tax on Transient Lodging shall be reported using Code PP3.

The total city rate for transient lodging is 5.5%, 2.5% which is reported using code PP and 3% which is reported using code PP3.

DOR Begins Federal Refund Offset Program In 2001 Tax Year

The Department of Revenue will be participating in the Federal Refund Offset Program beginning in the 2001 tax year. Created under provisions of the IRS Restructuring and Reform Act of 1998, the program allows the Arizona Department of Revenue to submit files containing delinquent debts of Arizona income taxpayers for potential offset against their federal income tax refunds. The program is managed by the Financial Management Services (FMS) branch of the United States Treasury.

Arizona resident taxpayers who have been in the collections stream with unresolved Arizona tax debts will be notified via certified mail, return receipt requested, that their income tax debt will be submitted for potential federal refund offset. The certified

letter sent by the Department of Revenue is a requirement of the FMS before the debt can be submitted into the program. Failure by the taxpayer to return the certified mail receipt will not prevent the Department of Revenue from submitting the tax debt to the program. Taxpayers are given sixty days to resolve their income tax liability by paying in full via certified funds before the tax liability is submitted to the FMS for offset. Those taxpayers selected for a federal refund offset will have had some form of prior collection activity.

Approximately fifteen states have participated in the program since its inception in the 1999 tax year.

Arizona Tax Talk 2001

Sponsored by the Arizona Forum for the Improvement of Taxation

The Conference

This year's conference has a new sponsor – AFIT (Arizona Forum for the Improvement of Taxation) has joined DOR & IRS. Two days of concurrent and general sessions will allow the opportunity to attend the topics of your choice. For those seeking Continuing Professional Education (CPE), the maximum number of credits is 15 which equates to just under \$7 per credit.

Tempe

Sheraton Phoenix Airport Hotel
1600 South 52nd St.
November 27 & 28, 2001
Guest Room Rates: \$90 plus tax
Call 480-967-6600 for hotel reservations

Tucson

Holiday Inn Palo Verde
4550 South Palo Verde Blvd.
December 3&4, 2001
Guest Room Rates: \$58 plus tax
Call 520-746-1161 for hotel reservations

Phoenix

Phoenix College – Osborn Center
1202 West Thomas Rd
December 17 & 18, 2001

For more information call:
Arizona Department of Revenue
Community OutReach and Education
In Phoenix: 602-542-3062
Toll-Free in Arizona: 1-877-863-0655
Fax: 602-364-0085